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SUBJECT: VENEZUELA'S BANDES OPENS ITS DOORS IN NICARAGUA
(C-AL7-00733)

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11. (SBU) Summary: On June 21, President Ortega officially opened the Venezuelan Bank for Economic and Social Development (BANDES) in Nicaragua. He personally handed out USD 9.65 million in loans to six cooperatives for small agricultural projects and USD 10 million in grants to five parastatals. The Venezuelan President of BANDES presented the money as "proof" of Venezuela's continued assistance to Nicaragua. BANDES' current operation raises questions about its viability as a bank, however. The capital reserves are below Nicaragua's mandated limits; the cooperatives receiving the money are, for the most part, not experienced micro-lenders; and the lending rate of 5% is far below the market rate. Currently, BANDES looks less like a bank and more like a development agency handing out project grants. It could well become Ortega's chosen instrument to funnel Venezuelan assistance to the FSLN away from the prying eyes of the National Assembly and donors. End Summary.

12. (U) On June 21, President Ortega officially opened the Venezuelan Bank for Economic and Social Development (BANDES) in Nicaragua, as part of the cooperation between Nicaragua and Venezuela under ALBA. The bank, a representative office of BANDES Venezuela, opened its doors for operation with USD 20 million in capital, which it promptly disbursed. Also in attendance at the inauguration were First Lady Rosario Murillo, Venezuelan Agricultural Minister Elias Jaua, the President and Vice President of BANDES, and several Nicaraguan cabinet members.

Money to Burn

13. (U) During the opening ceremonies, President Ortega personally handed out checks totaling USD 9.65 million to six cooperatives for small agricultural projects. The dollar-denominated loans carry 5% interest with a two year grace period (the length of these loans was not disclosed.) The cooperatives are to make the money available to almost 11,000 small agricultural producers.

14. (U) President Ortega also handed out USD 10 million in grants to five parastatals:

-- USD 3.3 million to the national water company (ENACAL) for maintenance of its equipment, networks and water treatment plants

-- USD 3.2 million to the national electric company (ENEL) to build hydroelectric plants

-- USD 2.9 million for to the Ministry of Health to improve medical services

-- USD 350,000 to the National Police to prevent crime
-- USD 308,000 to the National Postal System to buy supplies.

Support for the National Police came in the form of cash as well as 32 motorcycles and 18 patrol cars, all with "BANDES...the ALBA Bank" painted on the doors.

From Venezuela With Love

¶5. (U) The event was an opportunity for Venezuelan officials to make a big splash about Venezuelan assistance. Venezuelan Minister of Agriculture Elias Jaua stated that "Nicaragua does not owe Venezuela anything, since Venezuela already forgave the USD 32 million of bilateral debt." Jaua also promised more power generators to produce 60 MW or more, a housing development and school development plan, improvements to the water system, five tons of basic medicines, 150 tractors, 400,000 school backpacks, 50,000 teacher briefcases, and almost 31 tons of urea (fertilizer); in addition to the shipments of diesel, gasoline, and cooking gas. The President of BANDES said that Venezuela will continue supporting Nicaragua, as promised by President Chavez, emphasizing that the purpose of this support was to "heal the social debt that was brought by the neo-liberal wave that crushed the entire continent."

The Cooperatives

¶6. (SBU) The reason why the benefiting cooperatives will receive the money directly is that traditional micro-finance institutions would not agree to re-lend the money at 5%, according to one cooperative director. At least three of the six cooperatives have strong ties to the FSLN. Only two, CARUNA and SIFINA, already focus on micro-lending. Another, Nicaraocoop, only produced organic honey before being tapped by President Ortega to handle all of the urea (fertilizer) imports from Venezuela. According to the President of the National Association of Micro-Finance Institutions, micro-loans at 5% require a subsidy, as interest does not even cover administrative costs. Some cooperatives, like CARUNA, will pass the

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administrative costs on to the borrower, resulting in real interest rates of 8 to 9.5%. Others, like SIFINA and Nicaraocoop, will absorb the administrative costs and lend the money at 2% to its member cooperatives, which will then lend the money at 5%. (Note: Current long-term dollar denominated loan rates for agriculture are 11.9%. Micro-finance institutions rates range between 20-40%. End note.)

Comment - But Is It Really a Bank?

¶7. (SBU) Though registered as a representative office (loans only, no deposits) by the Superintendent of Banks (SIBIOF), BANDES is behaving more like a development agency than the second floor bank it has purported to be, at least for this first round of disbursements. It quickly disbursed half of its capital and has not properly capitalized these loans. (Note: SIBIOF requires a 10% reserve against loans - only USD 350,000 remains in BANDES' coffers. End Note.) Even as a development agency, its procedures do not guarantee effectiveness. The loans, at 5% (or even 9.5%), are below market rates, creating opportunities for rent-seekers, who would not necessarily be the small producers BANDES purports to help. BANDES could well become Ortega's chosen instrument to funnel Venezuelan funds directly to FSLN supporters. As a private banking institution, BANDES and its funds can be kept away from the national budget, its earmarks, and congressional and donor scrutiny. End Comment.

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